

PHILIP MORRIS COMPANIES INC.

SUBMISSION TO
THE BOARD OF DIRECTORS

DATE: • June 20, 1988

TO: • Mr. Hamish Maxwell

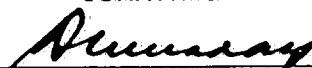
FROM: • R. William Murray

SUBJECT: • CAPITAL APPROPRIATION REQUEST:
• DELTA SMOKING ARTICLE

APPROVALS


HAMISH MAXWELL

JOHN A MURPHY


R. WILLIAM MURRAY

PHILIP L. SMITH

The attached appropriation request from Philip Morris U.S.A. requests approval of \$71 million for the Delta project. Delta is a smoking article designed as an alternative to the conventional cigarette; it is based on the principle of drawing heated air over a tobacco flavor chamber - as contrasted with burning tobacco as is the case with a conventional cigarette. This product will compete with the recently announced Reynolds smoking article.

The funds requested will enable us to establish a production facility capable of producing 1.5 billion cigarettes per annum - or approximately 1/4 of 1% of the U.S. market. The facility planned will enable us to produce Delta type cigarettes in quantities sufficient for test marketing and also, and very importantly, gain experience in producing these new smoking articles.

It is believed that expansion beyond the 1.5 billion annual production level could be accomplished in a reasonably short period should market conditions require this.

The project is not without risk as consumer demand for this new type of smoking article has yet to be determined. Of the funds requested, some \$29.4 million will be required for conventional cigarette making and packing equipment and \$3.3 million for the purchase of a facility to assemble the product. If the new smoking article is not successful in the marketplace, the making and packing equipment could be used elsewhere in our cigarette manufacturing operations and the building could be sold. We are, therefore, putting some \$38.3 million at risk, but it is believed that, by doing so, we will ensure that we will have the ability to compete in what could become a new segment of the U.S. cigarette market.

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I recommend this appropriation request for approval by the Office of the Chairman and the Board of Directors.



cc: R. N. Beane
D. Fried
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